RICHARD RUSSELL'S **DOW THEORY LETTERS, INC.**

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Apr. 21 DJIA 1196.30; PTI 1582; A-D Ratio –14.29
Apr. 29 DJIA 1226.20; PTI 1602; A-D Ratio –13.82

THE MARKET: In the last Letter I presented the case (the possibility) for this being the wind-up of a major bull market. In fact, I suggested that the rise from Dow 776 in August, 1982 could be the *beginning* of a great Fifth Wave under the Elliott Wave Principle. If so, we are in for some very explosive times in the period ahead.

One area that could look very different is the area of market sentiment. For over a decade the word has been, "Too much bullishness on the part of the public is bearish for the market." And this has held true during most of the period since the mid-1960s. But if we are now in the early part of the final Wave up from the 1932 low, then we are going to see weeks, months go by–and the public is going to STAY BULLISH. This is going to throw a lot of the sentiment indices into a cocked hat. In fact, it already has.

During the final segment of a major, primary bull market it is NORMAL to see the crowd become excited–even wildly excited. What do you think happened during the great Dutch tulip craze? Do you think that ended with two weeks worth of high excitement? Hardly. Actually, public excitement can last for months and even years. The fact is that we've never had a public or a market this big, nor have we ever had this many trading vehicles. The bigger the reservoir of players, the greater the potential for speculation, excitement and excess. The big excitement, the Wall Street frenzy, I think, lies (believe it or not) AHEAD.

What does it all mean? What does it mean that all the major indices are at new record highs and that the Dow has climbed from 776 to over 1200 without so much as a full correction? What is the market telling us?

Often, the SIMPLEST explanation is the correct one. The simplest explanation for the huge upward leg from the August, 1982 low is that the market is forecasting–it is telling us that times are going to get A LOT BETTER.

"What do you mean, a lot better?" you retort. "The debts are still building, the banks are still loaded with bum international debts, consumers are spending conservatively, and autos and housing are still no great shakes."

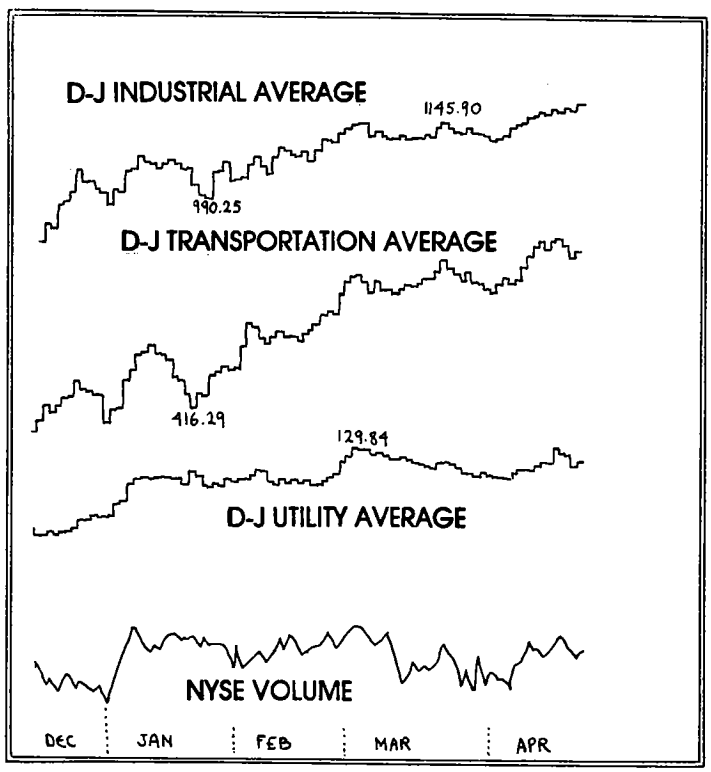
All very true, I answer, but remember, the stock market does not operate in a vacuum. The market is telling us something; it's looking ahead. Listen to this from the latest *Industry Forecast* (S.J. Levy, Box 26, Chappaqua, NY 10514). Levy has one of the best forecasting records in the business and here's what he says: "Industrial production, which spurted ahead in the first quarter, will continue to gain throughout 1983. Retail sales, sluggish so far this year, will improve strongly after midyear. . . . . Profits will rise at an average annual rate of 30% during the coming four quarters."

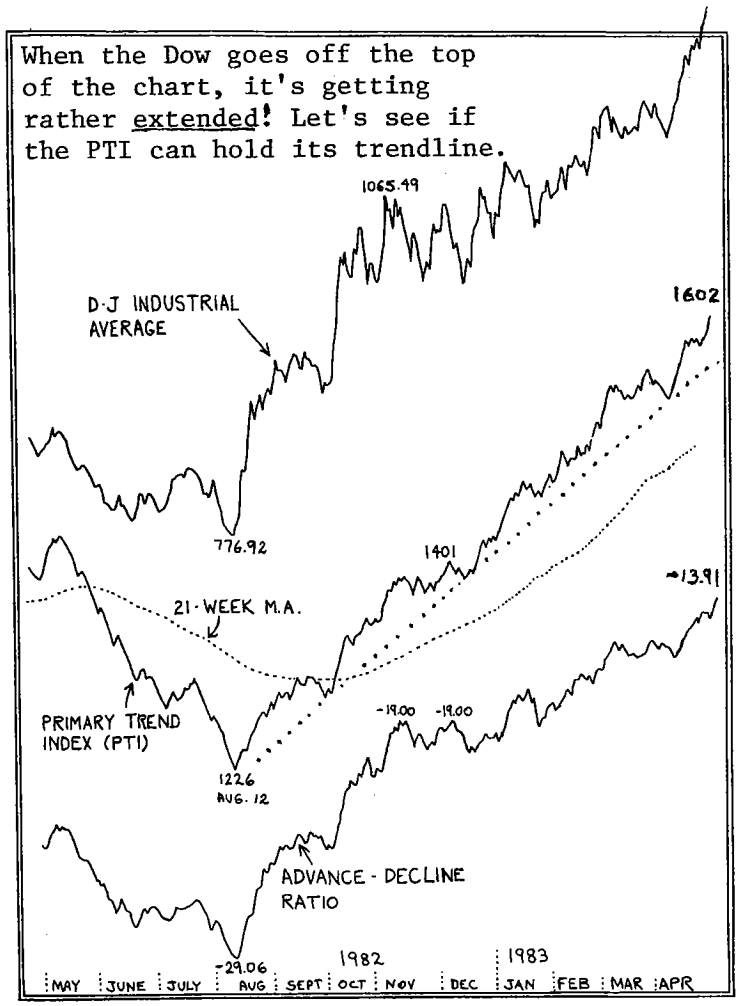
Meanwhile, liquidity is building. Over the past few months the market funds have lost nearly $70 billion. A good part of this money obviously moved into the stock market. On top of this IRA accounts are catching on in a big way now, and this is absorbing billions of new equity dollars, dollars that will COMPOUND ON A TAX DEFERRED BASIS (I expect the compound effect of all these IRAs to have a profound effect on the market from here on).

FRONT PAGE COMMENT: The majority of analysts seem to feel that "the long-awaited big reaction" is here. I'm not so sure. In the last Letter I said, watch for the new short interest figures. They came out last week and both the Amex and NYSE short interest rose to record highs. This is a bullish manifestation, as it indicates that skepticism about this bull market is increasing, not decreasing (and skepticism AGAINST the prevailing primary trend is always a big plus in favor of the continuance of the primary direction).

Also, cash reserves of the mutual funds jumped in March to a record high of $6.3 billion. Thus, the funds (via surges of new cash) are more flush with dollars than ever. That does not jibe with a major or even a secondary top. Remember, in a bull market the more cash on the sidelines and the greater the skepticism, the stronger the underpinnings of the bull.

And what of the technical indications? Remember, I said that you have to give a big bull market LEEWAY. You can't study a bull market with a magnifying glass. But the Averages are (irregularly) pushing to new highs. And the PTI has been advancing to record high after record high. I don't see any major weakness yet. And I do feel that we are looking at a bull that is clawing its way higher. I continue to sense that more people are





concerned with the "coming reaction" than they are with the record highs being established by the bull market. Skepticism, even after a Dow climb of nearly 450 points, remains strong. The bull loves it.

"But," you insist, "wouldn't a boom set off a whole new round of inflation? and with it, higher interest rates?" And my answer is that maybe this is what the new highs on the major averages are all about. It seems to me that the market is saying that somehow, someway, we are going to have improving business without another round of inflation.

One name-economist who is thinking along these lines is Gary Shilling, who has his own highly-regarded economic consulting firm on Wall Street. Says Shilling, "The postwar string of typical cycles has been broken and an extended period of disinflation has begun. This is going to have a profound effect, for no longer will people and corporations have inflation to cover for a multitude of sins." Shilling believes that people are going to save more, and cut back on spending. He also believes that the huge Federal deficits will serve to hold down inflation (by keeping real interest rates high).

If all that is true, my own belief is that there is going to be increased emphasis on low debt and high cash flow. Cash is going to be very important–and if not king, cash will at least be a crown prince in the world of the future.

The inflation rates for January, up 0.2%, and February, down 0.2%, combined with March's 0.1% advance for a 0.4% annual increase, the lowest quarterly rate since the combined flat zero rate for July,

THE PICTURE: This year marks the 25th year that I've published Dow Theory Letters. It's funny, I don't think I look old, I sure don't feel old, I'm convinced that I don't think old. Nevertheless, Dow Theory Letters is about the oldest advisory (written by a single person) in the business. Gad, that's scary.

As you must know, I don't do much in the way of advertising. I've run an ad in Barron's every week for the past 25 years, and I do some direct mailing. But in general, I've shied away from any publicity build-ups. Lou Ruykeyser has asked me to appear on *Wall Street Week.* But I never have called him, because I'm superstitious about too much coverage.

With it all, subscriptions to Dow Theory Letters are near 7,000, close to the highest level of the past quarter of a century. A lot of well meaning friends have told me that I could double my subscription list with a hard-hitting, professional ad and direct mail campaign. But my inclination is to stay with what works for me. And as I say, I'm afraid of a high profile in this business. I don't think most of my subscribers (who tend to be a sophisticated bunch) would like Russell all over the airways. Maybe I'm a bit superstitious–I've seen too many of the "great ones" in this business do swan dives. As they say, the bigger the ego the harder they fall.

One thing I've learned in writing almost a thousand reports is "Don't argue with the market." In an argument with the market, you'll always lose. I guarantee it. You may think you know more than the sum total of all the money that goes in and out of Wall Street. But I'll let you in on a little secret–you don't. In this business, when you find yourself out-of-step with the market, then you'd better crank up your computer, recheck all your data, revise your chart trendlines, and do what I call a "major confession of error." You tell your subscribers, "Look, I tried my damndest, but I was just plain wrong. So I'm going to reverse myself, I'm going to start from scratch, and I'm going to get me and you on the right side of the market."

Now to tell the truth, I've never seen a confession put exactly that way. I've never seen an advisor totally throw in the sponge (without excuses) and lay it all out for his subscribers to see. But I've seen a few confessions that are close to the above. And I have nothing but respect for the confessors.

Back in 1971 (after about five years of testing and trying) I introduced my PTI. What was the reason for the PTI? Well, I wanted an instrument that would force me to be honest–and hopefully right about the market. I was aware of the ego problem, I was aware that any analyst can be totally wrong for weeks and even months–if he follows his ego instead of the market.

So I designed a market instrument that would measure the build-up or decline of technical forces and measurements. And when I finished with my model I said this: "If the PTI enters on a long rising trend, there's no way you can't make money by being in the market. Conversely, if the trend of the PTI is down, you'd better be out of the market or short the market or in gold or in T-bills."

The PTI is a single line, and it is very easy to follow. If you know up from down, you can follow the PTI. And the PTI (I don't know exactly why) tends to follow along definite, often extended, trendlines. When it walks up a long trendline (such as the current rising trendline) it's a lead-pipe cinch to make money in the market. You simply buy no-load funds and sit with them as long as the PTI is up.

But as usual, there's a catch. Or to put it another way, there's no sure-fire system on Wall Street (if there was, in a matter of months or years one guy would have all the marbles and they'd have to shut down the exchange). The catch to the PTI is known as the whip-saw. That means that occasionally we'll get a trendless or a deceptive market. Then the PTI may whip back and forth without (alas) establishing a clear trend. When that happens, you can lose money, because obviously you can't take a series of 7% or 10% losses without finding yourself poorer and probably not even any wiser.

So what do I do about whip-saws? First, I pray that we don't get them. Second, when the PTI gives a buy signal I ease in slowly, and as the trend extends I add more and more. How heavy do I go or how heavy should you go? That's strictly a personal decision. I can't tell you how much you should spend for a house, I can't tell you how many slices of toast to eat for breakfast, and I can't tell you how committed to the long side you personally should be when the PTI is in a rising trend (as it now is). In other words, I can tell you what I see, I can tell you what I'm doing, I can tell you what direction you should take–but I can't hold your hand. Not when I have to deal with 7,000 hands.

INFLATION-DEFLATION: Bonds are extremely sensitive to inflation or deflation. Since inflation generally brings on higher interest rates, bonds tend to decline in an inflationary atmosphere (and, of course, they tend to rise during a deflationary atmosphere).

Gold, too, is extremely sensitive to inflation or deflation. Gold tends to rise during inflation and decline during deflation. Thus, gold usually acts just the opposite of bonds during any period of inflation or deflation.

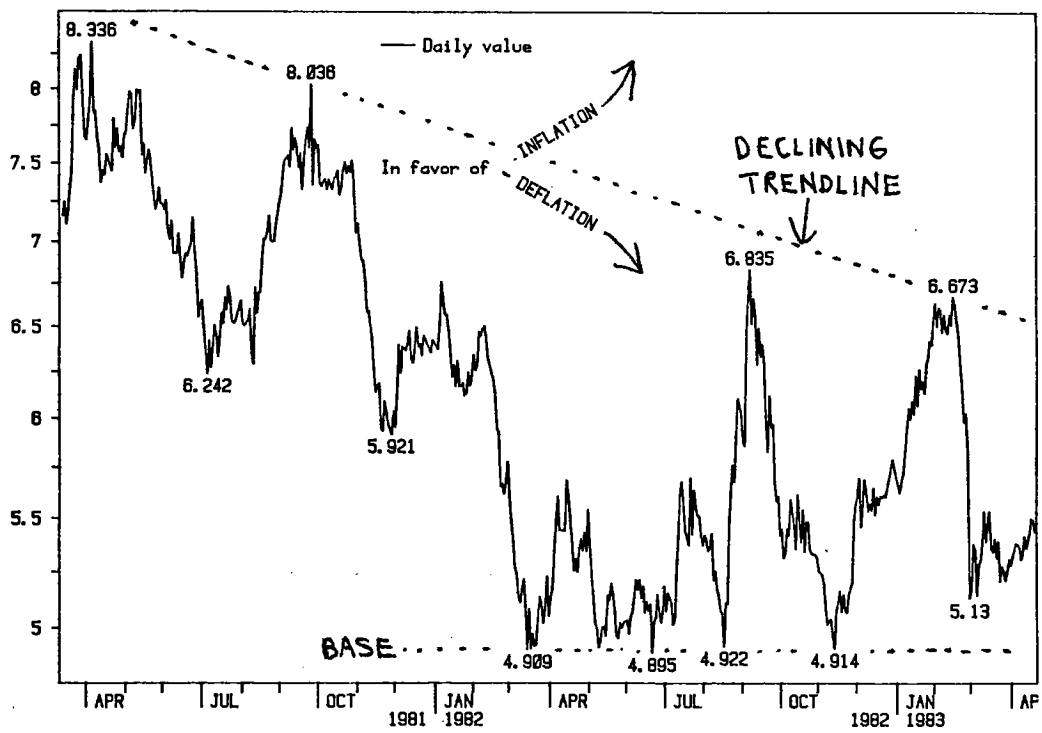
If we accept those premises, then a ratio of gold to bonds should be super-sensitive to the forces of inflation or deflation. With this in mind, I asked one of my computer-expert subscribers, Mr. John Carder, to run off a chart for me showing the daily ratio of gold to bonds. Mr. Carder divided the London PM gold fix each day by the price of the Treasury Bond 8's of 1996-01 (bid price), and the chart below is the result.

What we see here is fascinating. The overall trend of the ratio since early 1981 has been deflationary as the ratio has tended to form *declining peaks.* On the other hand, the ratio has halted four times at the 4.1 level, and more recently at the 5.1 level. Thus, there is massive resistance to the deflationary forces at the 4.9 level, resistance that began last March.

Nevertheless, the entire chart picture is one of a classic "descending triangle" with declining tops and a horizontal bottom line. If this pattern continues, the series of declining tops will give way to a break below the horizontal bottom support. If that happens, deflation will be on in earnest.

In other words, a break below 4.9 on the ratio would be a forecast of more deflation than anything we have seen so far in this cycle. Conversely, a strong surge by the ratio taking it above the last peak at 6.6 would tell us that the inflationary forces are in the saddle again.

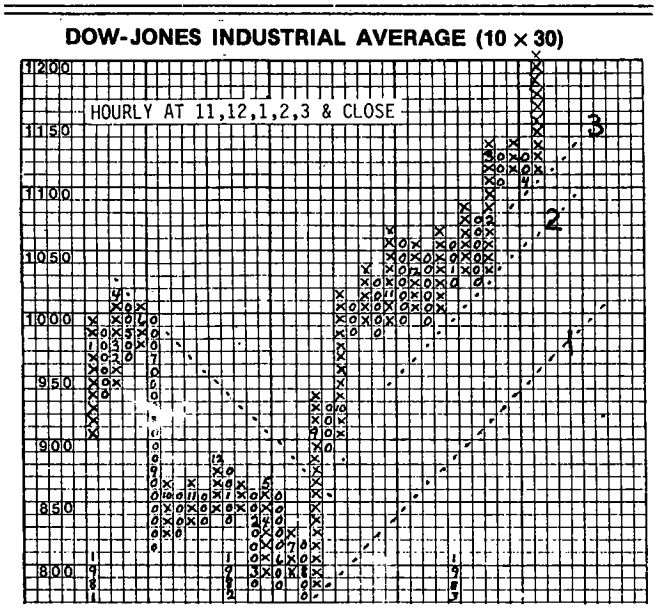
As I said, the chart so far offers a picture of declining peaks and a rise in the deflationary forces. I will keep subscribers up-dated on this most important chart. But I do feel that the chart explains to us why gold has been lackluster over recent months.



LONDON GOLD PM / U. S. TREASURY 8s 1996-01 Aug (WSJ bid)

CHECK POINTS: This chart (page 4) is a 10 x 30 point & figure chart of the Dow. All the Xs on the chart denote advances, all the Os denote declines. Each box on the chart represents 10 points and only rallies or declines of 30 points or more are shown. Thus, the chart concentrates a lot of action, in fact all the action since January, 1981.

I have written quite a bit over the years about the usefulness of trendlines in P & F work. The accompanying chart, I feel, demonstrates trendline use. I have numbered the three major bullish trendlines from the 1982 bottom. Trendline no. 1 is the main or primary trendline, rising at a 45 degree angle from 1982 bottom. It would require a Dow break below 980 to rupture this trend-



line. Trendline no. 2 runs along the 1000 to 1070 consolidation area. It would take a Dow break to 1070 to rupture this trendline.

The latest bullish trendline stems from the consolidation and rally from the Dow 1100 level. To decisively break this trendline, the Dow would have to drop back to 1100.

Thus, we have three guideposts to watch during any forthcoming weakness. And the inference is that as long as the Dow holds above 1100 the situation remains strongly bullish. (Chart courtesy of Chartcraft, Larchmont, NY).

NOTES & QUOTES: In a survey of international bankers (these guys travel a lot), the world's best hotels were picked. Of the first 10, not one was located in the US (and the US is supposed to have a service economy?). Five of the top ten hotels were in the Orient. Of the first 25, only three US hotels made the list. Number 11 was the Carlyle, NYC, 18 was Four Seasons in Wash. DC, and 20 was the Madison Hotel in Wash. DC. Here are the top 10, according to the banker.

1. **The Oriental, Bangkok**
2. **The Mandarin, Hong Kong**
3. **Hotel Okura, Tokyo**
4. **Dolder Grand Hotel, Zurich**
5. **Shangri-La Hotel, Singapore**
6. **Hotel Ritz, Paris**
7. **Hotel Vier Jahreszeiten, Hamburg**
8. **The Peninsula, Hong Kong**
9. **Ritz Hotel, Madrid**
10. **Claridge's, London**

* *

World population is exploding–and where it's least needed. For instance in Kenya the population growth is 4% annually. With 18 million in Kenya now, this means that by the year 2000 Kenya's population will double. Are you ready for this–the average age in Kenya is now under 15!

China has a policy of one child per family. More than one child and you get penalties. The result has been horrendous from one standpoint. Boys are highly valued in the new one-child families, and as a result infant girls have been killed by the thousands. In some areas of China, the ratio of boys to girls is 5 to 1. What happened to the baby girls is painfully clear–they were murdered. The Chinese government is now taking a strong stand on infanticide, but the practice goes on.

* *

Concept of the Week Dept: "The computer is incredibly fast, accurate and stupid. Man is unbelievably slow, inaccurate and brilliant. The marriage of the two is a force beyond calculation." Leo Cherne.

* *

Which mutual funds have out-performed? Why guess? Here are the statistics, but of course, the statistics deal with what's passed, not what's going to happen in the period ahead.

Assets growth for one-, five-, and 10-year periods ending March 31, 1983

One Year

Fidelity Technology	128.36%
Oppenheimer Target	112.73
Alliance Technology	112.04
Strategic Investments	105.25
Seligman Capital	104.74

Five Years

Fidelity Magellan	562.65%
Strategic Investments	529.30
United Services Gold	505.88
Int'l Investors	483.11
Research Capital	459.54

10 Years

Oppenheimer Special	986.11%
20th Century Select	865.89
20th Century Growth	787.08
Fidelity Magellan	727.95
Evergreen Fund	707.18

* *

Does anyone still care about what our Government is doing? Yeah, I guess I do. Anyway, here's the latest on what we laughingly call our Government's finances. The total Federal debt is now up to $1.25 trillion (remember when it used to be $1 trillion. The five month interest on the debt is $52 billion, and the interest is running better than $10 billion a month. The projected deficit coming up is $207 billion. All kind of spacey, eh!

Government Finances

WASHINGTON (AP) – Here are figures on government spending and debt (last six digits are omitted). The government's fiscal year runs from Oct. 1 through Sept. 30.

Total public debt April 15	1,250,412
Interest on public debt Feb	9,251
Interest fiscal year thru Feb	52,759
Projected deficit fiscal 1983	207,708
Actual deficit fiscal 1982	110,658
Receipts fiscal year thru Feb	233,365
Receipts period last year	244,299
Outlays fiscal year thru Feb	336,549
Outlays period last year	297,956
Gold assets thru Jan	11,144

THE MILITARY: Over the coming five years spending for defense is going up, up, up. The previous estimate was for military spending of around $1.6 trillion for the five years. This estimate has been raised to $2 trillion. Yes, we're talking about real money.

This spending is going to produce some fat deficits. This little chart shows how the Office of Management and Budget sees the picture. Note that for 1983 and 1984 things get worse. Then, for 1985 through 1988 things get better. Why do they always get worse now and tomorrow, but a few years out they always look better. Hope springs eternal, and so do budget estimates.

Revised O.M.B. Deficit Outlook

Deficit estimates made in January compared with those issued yesterday, based on revised economic and budget projections. For fiscal years, in billions of dollars.

	Jan.	April	Change
1983	-207.7	-210.2	+ 2.5
1984	-188.8	-190.2	+ 1.4
1985	-194.2	-184.6	- 9.6
1986	-147.7	-144.6	- 3.1
1987	-142.1	-136.6	- 5.5
1988	-116.6	-102.4	-14.2

Source: Office of Management and Budget

INVESTMENT POSITION: As I've been saying, this is a "buy and hold" bull market. Trade it, jump in and out, switch around, and the odds are that you'll lose your position as well as your equanimity. Don't try to out-guess the reactions. The best policy in a primary bull market is to buy the bottom of the reactions rather than attempt to scalp the tops. Ultimately, the odds favor this market "blowing its top in an orgy of bullishness." At that time we will move to the sidelines. But we're not there yet. The bull has a long way to go, and my suggestion is to ride it with well managed no-load funds.

GOLD: The latest Consumer Price Index shows a monthly rise of just .1%. In other words, currently there's almost no inflation at all. Most of the major crisis possibilities now seem to be on hold or "sanitized" as they say. So the main reason for holding gold is either as a hedge against an unseen emergency or simply as a "survival mechanism" much as one would keep a Colt 45 and maybe a Remington shotgun in the house.

The chart below shows gold in relation to the inflation picture (chart by Int. Moneyline, 25 Broad St., NYC 10004). Says Julian Snyder, Editor of Moneyline, "The gold/inflation relationship remains the base on which to build sophisticated analyses of where the gold price is heading. Perhaps the most important period to look at on the chart is the 1975-76 period, which was a time of reliquification of the economy and economic recovery, in critical ways similar to the present."

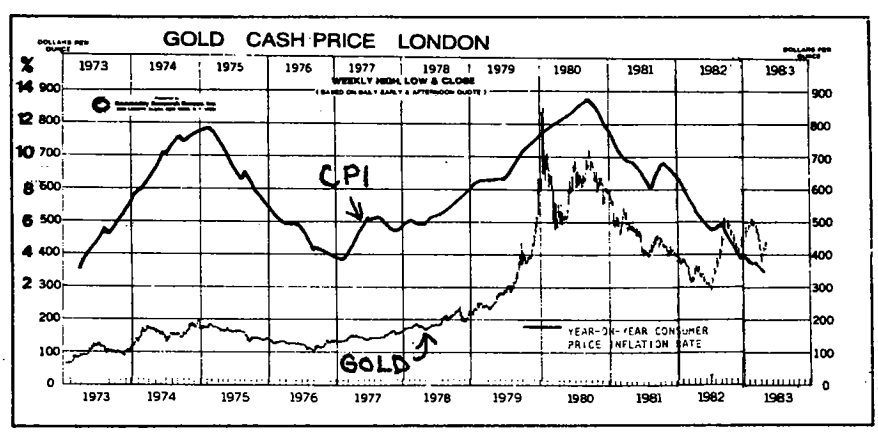
My good friend Ian McAvity makes an interesting comment in his latest report–a comment that jibes very closely with my own experience. He says, "I've never seen so many novices to the world of gold who seem over-willing to explain to me just how and why they are now initiating a gold purchase program. . . . for the first time! Anything so 'easy' to buy is probably not going to pay off in the near term. That's my experience." (PO Box 182, Adelaide St. Sta., Toronto, Ontario, Canada M5C 2J1).

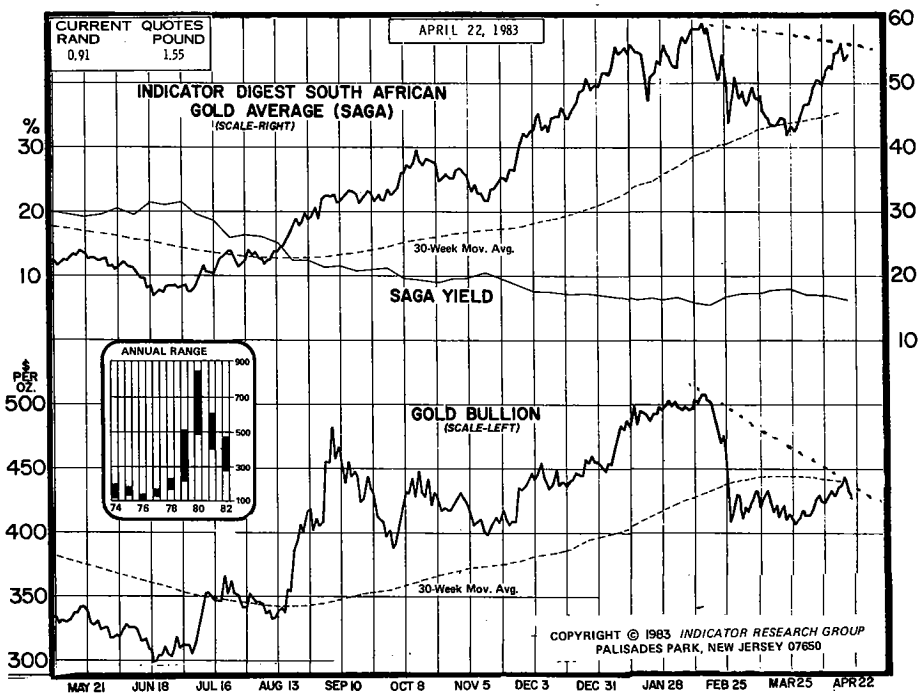
As this is written, spot gold has surprised everyone (except readers of these Letters) by dropping back below 430. Note on the tabulation box (moving averages) that gold is now under both the 5-week and the 13-week moving averages. Gold is again flirting with the long term or 50-week moving average. For weeks gold has had trouble holding above the 50-week moving averages, and I would take any close decisively below the 50-week MA (say a spot price under 420) as a very negative indication for the yellow metal.

I can't prove it, but intuitively I feel that any decline in spot gold below 400 would be a signal that inflation is going to be a dead issue for some time to come. The Commodity Research Bureau's Index of 27 commodities is now at about 245, just 20 points above its low point of the last few years. This is a deflationary indication.

Also of interest — the average price of a home-sale in San Diego for the month of March was at a 27 month low. The average house price also broke its 34-month moving average for the first time in a decade (figures courtesy of Jon Strebler of Shearson/Am. Exp.). Admittedly, San Diego real estate is about as inflated as any RE in the nation, but still–a 27 month low! It's worth thinking about.

The first page 6 chart (courtesy of Indicator Res. Group, Palisades Pk., NJ 07650) presents an interesting comparison of the South African Gold Average with gold bullion. Note that gold is now breaking down with the price sinking below the 30-week MA. But the Gold Share Average has made an assault

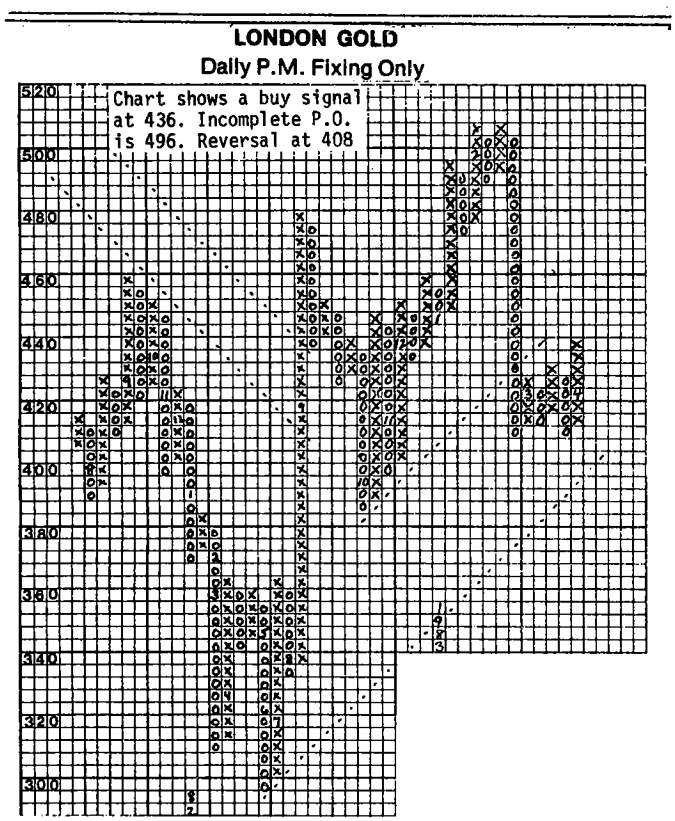




above 440. On the downside, a London afternoon fix of 412 or lower would be a very bearish signal, indicating a rapid breaking of the 400 level. Let's let the market tell the story from here on.

	Dow	PTI	Gold
Current	1210	1602	430
5-wk MA	1179		433
13-wk MA	1136		437
50-wk MA	1021		427
3-wk MA		1580	
8-wk MA		1556	
21-wk MA		1500	

The latest rundown on the defense stocks is shown below. Buy 'em and hold 'em. This is a longer-range proposition, but I'm convinced over the next few years defense is one place you should be.



		2/25/83 Price	Current Price	Defense stock average based on 1 share of each this week is
NYSE	Harris Corp. (HRS)	49½	42¾	
NYSE	LFE (LFE)	11⅞	15	
NYSE	Planning Research (PLN)	14⅜	16½	
NYSE	Scientific Atlanta (SFA)	19	16⅝	
NYSE	Tracor (TRR)	28¾	31¼	
AMEX	Bolt Beranek (BBN)	37	45¼	
AMEX	BDM (BDM)	43½	68	
AMEX	Dynalectron (DYN)	12¾	11¾	273
AMEX	Moog B (MOGB)	15½	17½	
AMEX	Systems Planning (SPZ)	7	8⅞	
	Original purchase date Feb. 25 '83		239	

on its February high. My feeling is that the shares have been too optimistic about the metal. I would say that if the metal tests or breaks 400, the gold shares would plunge.

I'm going to give subscribers the full gold treatment in this issue. Here's yet another chart, this time a P & F chart courtesy of Chartcraft, Larchmont, NY. Here we see gold (last row of Xs) rallying above its last peak. But there has been no follow through. A bullish follow through would entail gold pushing

I've been telling subscribers that all you need to ride a primary bull market is money and the help of a professional stock-picker. That happy union is known as a no-load fund. I included a list of no-load winners on the page 4 chart–but, of course, all past performance is history. And whether these funds can continue to be winners is not guaranteed. At any rate, here are a few no-load funds I like. Columbia Growth Fund 1-800/547-1037; Explorer Fund 1-800/523-7910; Value Line Leveraged Growth Fund 1-800/223-0818; Guardian Mutual Fund 1-212/850-8300.

LATE NOTES: This market is not only a bull, it's a tiger. It's free-wheeling in outer space now, with no recognizable upside resistance (obviously, since the major averages are in uncharted, record high territory). This is an old fashioned, 1958-59 type bull market. You buy and hold. Try to outsmart this market, try in-and-out trading, and all you'll see is the tail of the bull passing you by.

NEXT MAILING: May 18